

Message Text

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ACTION ARA-14

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E.O. 11652: N/A
TAGS: ECON, ELAB, EAGR, SHUM, CI
SUBJECT: GOC MOUNTS ATTACK ON UNEMPLOYMENT PART II - AGRICULTURAL

REF: A) SANTIAGO 2997, B) SANTIAGO A-16

1. SUMMARY. PARALLEL WITH ITS ATTACK ON DISTORTIONS IN INDUSTRY AND SERVICES WHICH CONTRIBUTE TO UNEMPLOYMENT (REF A), ODEPLAN, THE NATIONAL PLANNING ORGANIZATION, HAS PROPOSED MEASURES IN THE AGRICULTURAL SECTOR. THE UNECONOMIC SIZE OF HOLDINGS RESULTING FROM AGRICULTURAL REFORM (REF B), INCLUDING THE INABILITY OF THESE SMALL FARMERS TO GENERATE THE CAPITAL NEEDED TO MAKE THEIR HOLDINGS PRODUCTIVE MIGHT WELL BE AMELIORATED BY ALLOWING LARGER PRIVATE HOLDINGS AND THE FORMATION OF LARGER AGRICULTURAL CORPORATIONS. THERE ARE TWO MAJOR DRAWBACKS TO THESE PROPOSALS: FIRST, THERE IS THE TENDENCY OF LARGER LANDOWNERS WITH ACCESS TO CAPITAL TO SUBSTITUTE MACHINERY FOR LABOR; SECOND, AND MORE IMPORTANT, REVERSING THE LAND DISTRIBUTION ACCOMPLISHED DURING 20 YEARS OF "AGRARIAN REFORM" WILL

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GENERATE POLITICAL ATTACKS FROM REPRESENTATIVES OF PREVIOUS REGIMES. END SUMMARY.

2. ODEPLAN STAFFERS ARE UNHAPPY WITH WHAT THEY REGARD AS THE PREMATURE RELEASE OF THEIR PROPOSALS SUMMARIZED IN REFTEL. WHILE CONCEDING THE POLITICAL NECESSITY OF MAKING PUBLIC A CONCERTED PLAN OF ATTACK ON UNEMPLOYMENT, THEY POINT OUT THAT

THEIR PROPOSALS HAVE NOT BEEN CLEARED WITH OTHER MINISTRIES, AND NOTABLY THE POWERFUL HACIENDA (FINANCE) UNDER SERGIO DE CASTRO. MOREOVER, THEY ARE EMBARRASSED BY THE PUBLICITY (REFTEL PARA 9, SUBPARA 3) GIVEN TO A "PLAN" TO ELIMINATE EXISTING RESTRICTIONS IN THE TRANSPORTATION AND COMMUNICATION SYSTEMS. THIS IS STILL A "PROPUESTA ABIERTA," OR OPEN PROPOSAL STILL TO BE STAFFED OUT. ACCORDING TO TUCAPEL JIMENEZ, PRESIDENT OF THE PUBLIC EMPLOYEES UNION (ANEF), THESE PROPOSALS WERE RELEASED IN ORDER TO DRAW PUBLIC COMMENT OR CRITICISM. FAILING UNFAVORABLE CRITICISM, HE BELIEVES THAT THEY WILL BE ADOPTED. THESE RESERVATIONS NOTWITHSTANDING, THE DETERMINATION OF PRESIDENT PINOCHET TO DO SOMETHING ABOUT EMPLOYMENT SHOULD ENSURE THAT A GOOD PROPORTION OF THESE PROPOSALS WILL REACH FRUITION.

3. WITHIN THE PROPOSALS THERE ARE TWO MAJOR DIRECTIVES WHICH ACCORDING TO ODEPLAN ARE INTENDED TO AMELIORATE UNEMPLOYMENT IN THE AGRICULTURAL SECTOR. THE PROPOSAL ELIMINATES THE RESTRICTION ON THE MAXIMUM SIZE OF FARM HELD TO 80 BASIC IRRIGATED HECTARES WITHIN THE CENTRAL ZONE. SECONDLY, THE PROPOSAL AUTHORIZES THE FORMATION AND OPERATION OF AGRICULTURAL STOCK COMPANIES. ONE OF THE CHIEF AGRICULTURAL LABOR LEADERS, HOWEVER, BELIEVES THAT THE UNDERLYING PURPOSE OF THESE AGRICULTURAL PROVISIONS IS TO UNDERMINE AGRARIAN REFORM. IN THIS CONNECTION HE POINTS TO THE RECENT SELECTION OF A VOCIFEROUS OPPONENT OF AGRARIAN REFORM SINCE IT STARTED TWENTY YEARS AGO AS THE NEW MINISTER OF AGRICULTURE.

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4. AGRICULTURAL CORPORATIONS. THE FORMING OF AGRICULTURAL CORPORATIONS WOULD PROVIDE AN ALTERNATIVE TO COOPERATIVES, IN ORDER THAT THE SMALL AND MEDIUM-SIZED PRODUCERS MAY SPREAD THE RISKS OF THEIR FARM OPERATIONS OVER MORE THAN ONE OR TWO COMMODITIES. AT PRESENT, THEY HAVE TO SPECIALIZE IN ONE OR TWO COMMODITIES, RISKING THEIR ENTIRE INCOME ON THIS LIMITED RANGE. THE FORMING OF AGRICULTURAL CORPORATIONS IS INTENDED TO PERMIT THE PRODUCTION OF DIVERSE CROPS AND SPREAD THE RISKS AMONG THE SEPARATE MEMBERS. IN ADDITION, THE COLLECTIVE POWER OF THE CORPORATIONS IS EXPECTED TO PROVIDE GREATER INVESTMENT POTENTIAL THAN WOULD INDIVIDUAL MEMBERS OPERATING ALONE.

5. SIZE OF HOLDINGS. FOR SOME TIME, THERE HAS BEEN DISCONTENT OVER THE ABSOLUTE RESTRICTION ON FARM SIZE, PARTICULARLY WHEN THE SALE AND/OR PURCHASE OF A NEIGHBORING TRACT OF LAND WOULD ENHANCE THE EFFICIENCY OF THE LARGER, MORE DIVERSIFIED FARM. ECONOMICS OF SIZE EFFICIENT USE OF CAPITAL EQUIPMENT

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AND IMPROVED MANAGEMENT ABILITY ARE ALL INVOLVED.

6. MANY REFORM SECTOR SMALL FARMERS OFTEN WITH HOLDINGS OF LESS THAN 10 BASIC IRRIGATED HECTARES LACK ACCESS TO CREDIT, AS WELL AS MANAGERIAL ABILITY, TO OPERATE THEIR FARMS ON A COMMERCIAL SCALE. WHILE MANY OF THESE FARMERS ARE ABLE TO SUBSIST AT A COMFORTABLE LEVEL, THEY DO NOT CONTRIBUTE TO THE COMMERCIAL OUTPUT OF THE FARM SECTOR. LACK OF TECHNICAL ASSISTANCE AND CREDIT HAS LED IN MANY CASES TO COMMERCIAL FAILURE. REFORM SECTORS FARMERS HAVE NOT BEEN VERY SUCCESSFUL IN FORMING COOPERATIVES IN ORDER TO MUSTER ECONOMIC CLOUT.

7. WHILE THE AVAILABLE STATISTICS INDICATE THAT THE RESALE OF LANDS IN THE REFORM SECTOR HAVE NOT BEEN WIDESPREAD, THERE IS REASONABLY STRONG BELIEF THAT MANY WOULD SELL IF THE RESTRICTIVE SELLING AND BUYING SYSTEM WAS CHANGED. THE GOC HAS GIVEN VARIOUS TYPES OF ASSISTANCE TO SMALL FARMERS THROUGH INDAP AND OTHER CREDIT PLANS. THE POLICY OF THIS GOVERNMENT THAT ALL ENTERPRISES SHOULD MAKE IT ON THEIR OTWN HAS MADE IT HARD FOR NEW AND SMALLER

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FARMERS TO SURVIVE WITHIN A MARKET PLACE INFLUENCED BY CHEAPER IMPORTS AND ESTABLISHED DOMESTIC COMPETITION.

8. THE EFFECT OF ALL THESE DIFFICULTIES ON THE PROBLEM OF UNEMPLOYMENT HAS BEEN A NEGATIVE ONE. IN PARTICULAR, THE LARGER FARMS THAT WERE BROKEN UP UNDER AGRARIAN REFORM RELEASED TO THE LABOR MARKET MORE FARM LABORERS THAN WERE ABSORBED BY THE REFORM SECTOR FARMS. THUS UNEMPLOYMENT IN THE RURAL SECTOR REMAINS HIGH.

9. THE ODEPLAN PROPOSAL TO LIFT THE RESTRICTION LIMITING FARM SIZE TO 80 BIH SHOULD ENABLE NEIGHBORING FARMS TO BUY OR SELL TO ADJACENT FARMS. ODEPLAN EXPECTS PRODUCTIVITY TO INCREASE. PERMISSION TO FORM FARM CORPORATIONS IS ALSO EXPECTED TO ENHANCE THE PURCHASING AND SELLING POWER OF FARMERS. THERE MAY BE MORE COMPETITIVE PRICING AND PERHAPS ATTEMPTS AT PRODUCT QUALITY DIFFERENTIATION BY SOURCE OF SUPPLY. MORE EMPHASIS WILL BE PLACED ON THE MANAGERIAL AND TECHNICAL SKILLS OF EMPLOYEES.

10. BECAUSE OF MUCH RELATIVELY CHEAP LABOR, AND BECAUSE MUCH OF FRUIT AND VEGETABLE PRODUCTION, HARVEST AND MERCHANDIZING REQUIRES OR IS WELL SUITED FOR HAND LABOR, TOTAL EMPLOYEMENT IN AGRICULTURE SHOULD ON BALANCE INCREASE. AGAINST THIS SHOULD BE WEIGHED, HOWEVER, THE INTEREST OF MANY CHILEAN FARMER-BUSINESSMEN STREAMLINING THEIR OPERATIONS IN ORDER TO INCREASE OUTPUT AND REDUCE COSTS. THE EXAMPLE OF THE UNITED STATES CARRIES A GREAT DEAL OF WEIGHT. AS ONE EXAMPLE, TO DATE MOST PACKING OF GRAPES IS DONE USING WOODEN BOXES ASSEMBLED AT THE SITE BY PERHAPS 20 OR 30 WORKERS. ONE LARGE EXPORTER IS NOW EXPERIMENTING WITH A MACHINE IMPORTED FROM THE U.S. THAT WOULD FORM THE GRAPE BOXES OUT OF EAX IMPREGNATED CARDBOARD - ALL IN ONE SIMPLE OPERATION. THE MACHINE CAN BE OPERATED BY ONE OR TWO WORKERS. THIS PATTERN MAY WELL REPEAT ITSELF IN OTHER AREAS OF CHILEAN AGRICULTURE.

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11. WHATEVER THE ECONOMIC IMPACT OF LIFTING THE RESTRICTIONS ON FARM SIZE, THE POLITICAL FALLOUT IS LIKELY TO BE CONSIDERABLE. EVERY CHILEAN GOVERNMENT FOR THE PAST TWENTY YEARS, RANGING FROM ALESSANDRI ON THE RIGHT THROUGH THE MIDDLE-OF-THE-ROAD CHRISTIAN DEMOCRATS TO ALLENDE ON THE LEFT, HAS PURSUED BROAD POLICIES OF AGRARIAN REFORM. IN VARYING DEGREES "AGRARIAN REFORM" HAS BEEN DEFINED AS LAND REDISTRIBUTION. THE NEWLY ANNOUNCED STEPS REVERSE THIS TWENTY-YEAR TREND AND THE GOC CAN EXPECT CRITICISM FROM THE LEFT AND THE CENTER (AND PERHAPS FROM SOME ELEMENTS ON THE RIGHT AS WELL).
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